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*midsize school
districts*

Driving More Money into the Classroom: The Promise of Shared Services

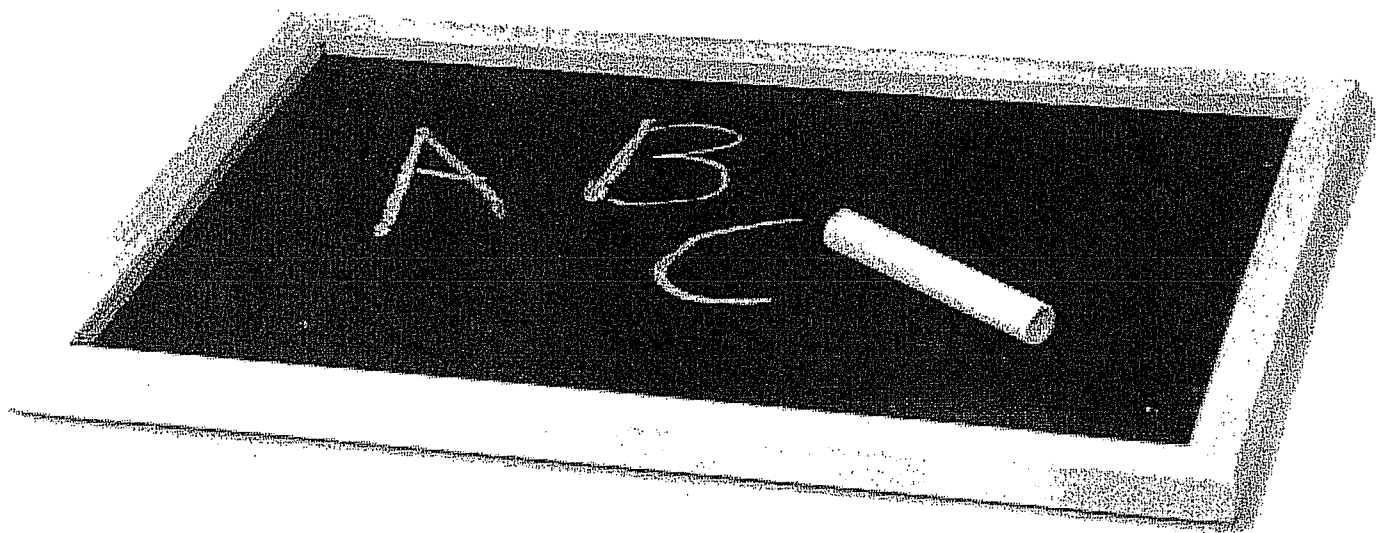


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Executive Summary

Education spending constitutes up to half of many state budgets in the United States. In recent years, tighter state budgets, surging school enrollment in many districts (and falling in others), executive mandates, and court rulings have put increasing pressure on states and school districts to reduce education costs, especially for non-instructional services.

In most states at least 40 percent of every dollar spent on education never makes it into the classroom. Instead it is expended on business operations: transportation, human resources, food services, information technology, building maintenance, administration and other largely support functions. The often high costs of providing these services, and the inefficient way in which they are often provided, has caused more and more state political leaders to call for school district consolidation. The goal—to take advantage of economies of scale and reduce these costs—makes a lot of sense. Consolidation, though, can also have some serious downsides: it is politically unpopular, reduces local control, can negatively impact educational outcomes, and eventually can lead to even higher costs due to the dead-weight of bureaucracy. In short, consolidation may not be the most effective strategy to help districts direct more money into the classroom.

With large districts often generating high overhead and instructional spending, does this mean that small districts and small schools are the answer? From an education quality perspective, a strong case certainly can be made for smaller schools which have been associated with higher SAT, ACT and National Assessment of Educational Progress scores. There is a major problem, however, with small school districts. According to a substantial body of research, they tend to have comparatively high non-instructional costs. The ten smallest school districts in California, for example, had average spending on "other services," 578 percent higher than the state average for all districts.

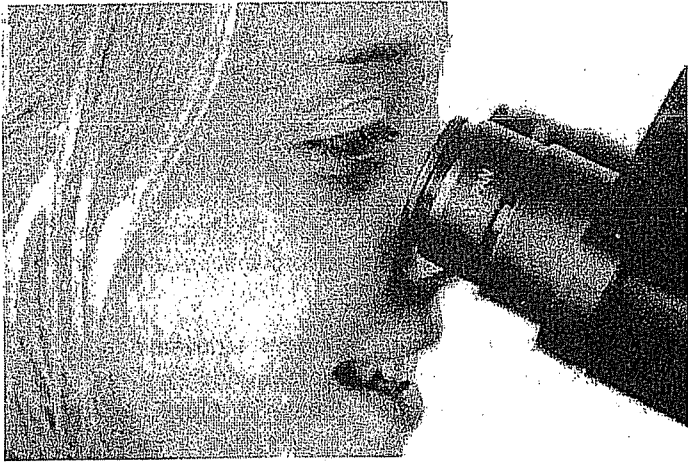
Fortunately, there's another option, one that makes it possible to educate students like a small district and still have the economies of scale and buying power of a large district. How? By implementing shared services. Small districts can band together to share everything from transportation services to building gymnasiums, creating the purchasing power and economies of scale of medium-sized districts. Large districts can organize their individual schools into smaller clusters and still benefit by sharing services internally. Charter schools can purchase administrative services from school districts or other charter schools. Districts of all sizes can participate in agreements that improve the quality of their staff and internal capacities.

Sharing services is a technique that both the private and public sectors have employed for decades and has been growing rapidly in popularity in recent years due to its proven ability to reduce costs. Since the late 90's, companies such as Ford, General Electric, Hewlett Packard, Pfizer and British Petroleum have all realized significant cost savings from shared services.

Shared services have also become commonplace in government. The U.S. Postal Service saves \$25 million a year by using shared services for accounting. Work that had been performed by 1100 employees at 85 unique district offices has been consolidated and standardized, and is now being performed by only 350 employees at three Accounting Service Centers (ASCs). In New Jersey and Michigan, many municipal governments have engaged in shared services agreements for everything from purchasing to benefits administration.

School districts have also made use of productive shared service arrangements. For example, two school boards in Ontario, Canada, joined together to share bus transportation services and audio-visual resources. By creating a single bus system, the two boards will save \$8 million in administrative, capital, and fuel costs over three years. The boards' shared AV library serves classrooms in both districts, saving \$300,000 annually. Similarly, in the greater Lawrence area of Massachusetts, ten school districts banded together to provide special education services. This sharing will save them approximately \$13 million over the next two decades.

Yet across the country, school districts have barely scratched the surface in terms of tapping into the cost savings potential and other benefits from shared service arrangements. Shifting just a quarter of tax dollars spent by school districts throughout America on non-instructional operations to shared services, for example, could potentially yield savings in the range of \$9 billion. To put this number in perspective, it is equivalent to 900 new schools or more than 150,000 additional school teachers.



States that desire to promote the greater use of shared services in local school districts have several levers they can pull, including budget pressure, financial incentives and technical assistance. The states of New York and New Jersey, for example, both provide financial incentives for school districts to engage in shared services. One New Jersey incentive program, the Regional Efficiency Aid Program, provides tax credits directly to homeowners as a way to publicly reward school districts and municipalities for sharing services. Meanwhile, Texas Governor Rick Perry has taken a different tack, issuing an executive order mandating that school districts limit non-classroom spending to 35 percent of their total budgets. The order is expected to create strong momentum for more service sharing by Texas school districts.

Sharing services creates the economies of scale and consistency of process and results that come with more centralized models. It also allows districts to maintain the benefits of decentralized control, allowing individual administrators to retain oversight of curriculum, education, and other aspects of non-shared processes. By sharing processes that aren't mission-critical while still retaining local control of the most important aspects of education, shared services can bring *the best of big and small*.

boop?

Introduction

Education spending constitutes up to half of many state's budgets. Ranging from teachers' salaries to building costs, these budget dollars have in the past mostly escaped the chopping block of the yearly budget cutting process. In recent years, however, states and school districts are under increasing pressure to reduce education costs, particularly of non-instructional services.

Nowhere is this more the case than California where scores of school districts have faced severe deficits in recent years. The school board in San Diego had to cut between \$60 and \$84 million for the 2004-2005 academic year—even after saving \$14 million in 2003-2004.¹ The Legislative Analysts' office in California reports that in 2005-06, school districts continue to face a number of revenue and cost pressures.² Declining enrollment continues to affect some districts, reducing district revenues and requiring budget cuts at the local level.

The fiscal pressures on education budgets don't stop in California, however; they stretch across the nation:

- In 2004 in Kentucky, Gov. Ernie Fletcher reduced education program funds by \$6.9 million.³
- The *Akron Beacon Journal* reported that many Northeast Ohio districts face budget cuts for the 2005-2006 school year and that the Ohio State Senate projects cuts in education funding through 2005-2007.⁴
- The *Duluth News Tribune* reported that the Duluth, Minnesota school district faces more than a \$3 million shortfall for the 2005-2006 school year.

Even in states like Maryland and Virginia, which experienced budget surpluses in 2005, money for education is always limited and rarely keeps pace with costs.

Several factors are driving these educational cost pressures.

Surging enrollment. Surges in school-age children are overwhelming some local school infrastructure. In Temecula, California, the school district must raise class sizes for the 2005-2006 school year to meet the district's budget shortfall. Similarly, in May 2005, the *Sacramento Bee* reported that school districts across the state were canceling bus service and laying off bus drivers to save money.⁵ Meanwhile, school districts in Texas, Louisiana and elsewhere that have enrolled significant number of Hurricane Katrina evacuees are grappling with large increases in student populations.

Declining enrollment. Many rural school districts and some inner city schools face the opposite problem of their fast-growing counterparts: declining enrollment. This often creates severe cost strain because it typically means budget cuts. Such cuts present a challenge due to the difficulty of shedding fixed costs—at least in the short term.

Court Rulings. States are also under financial pressure to direct more resources to the classroom as a result of school finance litigation. Lawsuits against state funding systems have been brought in 44 out of 50 states. Adequacy lawsuits are based on the notion that states are not providing enough funding for all students to meet state and federal academic expectations. According to the Education Commission of the States, adequacy lawsuits have been filed in 32 states. In 14 cases, the courts found that the school funding system, in part or in whole, violated the state's constitution.⁶

These lawsuits can compel states to invest significant new resources in K-12 education.⁷ For example, in February 2005, after the state of New York missed a deadline to revamp the state's school finance system, state Supreme Court Justice Leland De Grasse ordered the state to pay \$5.6 billion in new aid to New York City schools. School adequacy lawsuits offer another compelling reason for states to encourage school districts to direct more resources into student funding rather than administrative services.

Ballooning Medicaid Costs. Indirectly, escalating Medicaid costs, which now account for nearly one-third of some state budgets, put serious cost pressure on education and all other areas of state government. Medicaid cost increases, coupled with longer life spans, says Virginia Gov. Mark Warner, are eating into state education budgets and will soon put the “needs of grandma over the grandkids” if something is not done.⁸

How can states and school districts respond to these fiscal pressures without adversely impacting educational performance? One promising approach is by reducing non-instructional spending costs through shared services. Whether a district has a surplus or deficit, a budgetary feast or famine, arrangements with other school districts, within large school districts, or with outside entities to share services such as transportation, food services, human resources, finances and purchasing can help realize significant cost reductions without negatively impacting student outcomes. In this study we will seek to explain the concept of shared services, show where it has been successfully applied in the public and private sector, detail the best opportunities for shared services in education and provide guidelines for successful implementation.



Relationships between School District Size, Costs and Educational Performance

In most states, anywhere from one-third to one-half of every dollar spent on education never makes it into a classroom. The money goes to administration, support services, and operations. Lacking economies of scale—and often sufficient managerial expertise—many small and medium-sized districts find it extraordinarily expensive to provide the full array of support and administrative services in-house. At the same time, many large districts suffer from duplicative or inefficient administrative systems due to layer upon layer of bureaucracy grown over time. For example, in many states, teachers make up a little more than half of all school district staff.⁹ In contrast, teachers account for between 60 and 80 percent of all school staffing in Europe.¹⁰ The resulting high per-student costs constitute a significant drain on budgets.

The U.S. Department of Education has found that approximately 39 percent of state education budgets are used for non-instructional purposes. More detailed analyses at the state level suggest that the federal statistics may even understate the actual amount going to non-instructional costs. The state of Texas has one of the most detailed systems of school cost accountability. It offers an instructive example for taking a closer look at education spending. Data from the Texas Education Agency (TEA) show that during 2004-2005, Texas school districts devoted only 59 cents of every tax dollar to classroom instruction. The remaining 41 cents went to support functions such as student transportation, food services, facilities maintenance and operations, and general administration.¹¹ Meanwhile, in California, only 54 percent of per-pupil spending goes to instruction costs (See Figure 2), while in Illinois classroom expenditures represent only 46 percent of the budget compared to 44 percent for support services.¹²

Figure 1. The Texas Education Dollar: Current Expenditures (2004-2005)

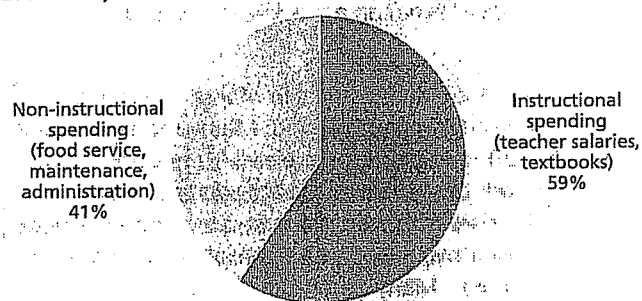
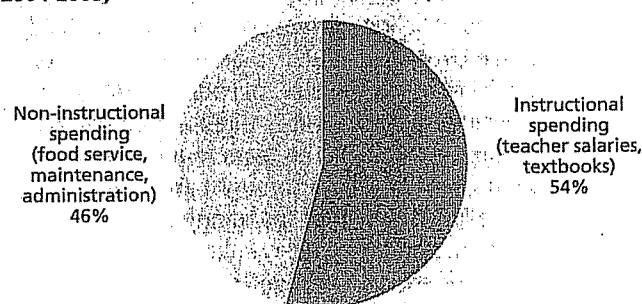


Figure 2. The California Education Dollar: Current Expenditures (2004-2005)



Pressures to Get Bigger—and Smaller

The growing recognition that something must be done to drive a higher percentage of school funding into the classroom has prompted a number of state leaders to propose the wholesale consolidation of small school districts into larger regional or city-wide districts. Consider the following:

- In Arkansas, the legislature approved a plan in 2004 to consolidate small school districts with less than 350 students.¹³
- In Marin County, California (where 20,000 students are enrolled in 19 school districts), County Schools Superintendent Mary Jane Burke is exploring district consolidation to conserve resources in the face of state budget cuts.¹⁴
- The Arizona legislature debated school district consolidation after a state Auditor General's report found that small school districts spend far more on administrative functions than large districts.¹⁵
- In Michigan, a number of school districts are considering consolidation in order to take advantage of a state financial incentive that gives them an extra \$50 per pupil for consolidating.
- Several small schools and districts in Maine have been consolidated. For example, Portland, Maine residents voted in November 2003 to close some elementary schools and create a network of medium-sized schools to serve students.¹⁶ In more rural parts of the state, Sanford school district has closed two schools and consolidated into five remaining facilities. Many other rural school districts are considering consolidation.¹⁷

Reason for Caution. Despite the growing interest in school consolidation there is ample reason for caution. A substantial body of research has questioned both the educational and cost savings benefits of school district consolidation. In 2002, a research team led by William Ouchi, a professor at UCLA's Anderson School of Management, examined nine different school systems, including the country's three largest school districts (See sidebar on page 7). The team found that the centralized management of schools brought about by consolidation actually led to higher spending on administrative staff and an increased number of administrators per student. In the huge Los Angeles Unified

School District, for example, only 45 percent of education dollars were spent in the classroom according to Ouchi. The district spends only \$84 per pupil on textbooks (or 90 percent of the state average) but spends \$107 dollars per student on supervisors' salaries (which is 191 percent of the state average and does not include principals or other school level administrators). The trend holds true among all of California's large school districts. In fact, while Los Angeles spent \$710 per student on "other services", San Francisco Unified spent \$1,004 and Oakland spent \$1,254 per student. The state average for all districts is \$644 per pupil.¹⁸

In another study, education researcher Vicki Murray analyzed Arizona's 209 school districts. Her finding: medium size districts tend to have the lowest administrative spending.¹⁹

In very large districts of 10,000 or more students, bureaucracy, approval bottlenecks, and supervisory problems proliferate and cause less value per administrative dollar spent. A Cato Institute study, for example, found that between 1960 and 1984, the number of school districts nationwide fell more than 60 percent, from 40,520 to 15,747. During this time school administration grew by 500 percent, while the number of teachers and principals rose by only 57 and 79 percent, respectively.²⁰ The implication is clear: rather than large cost savings, the end result of consolidation often has been higher administrative costs.

Small Schools Movement. On the flip side of pressures to consolidate is the growing trend toward smaller schools. Schools that are strategically designed to have no more than 400 students represent the small schools movement. These schools are in place or starting up in at least 41 states. Some urban districts like Sacramento and Los Angeles have converted or are planning to convert all large high schools to small high schools. The schools are either created new or by subdividing large high schools and having several schools share one building.

In the past decade, the Gates Foundation has invested \$745 million in grant money into promoting small schools. In addition, the federal government is operating a \$142 million grant program for subdividing larger high schools.²¹

These smaller school units have a financial incentive to share services in order to avoid high non-instructional and administrative costs and to drive more money into the classroom.

Can We All be Small?

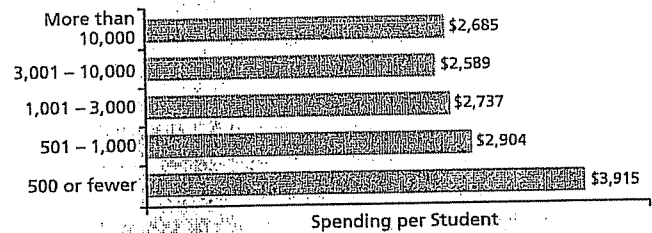
With large districts generating high overhead and instructional spending, does this mean that small districts and small schools are the answer? From an education quality perspective, a strong case certainly can be made for smaller schools. The American Legislative Exchange Council's 2002 *Report Card on American Education* found that fewer students per school and fewer schools per district (which means more and smaller districts) are associated with higher SAT, ACT, and National Assessment of Educational Progress scores.²²

In addition, research by Harvard economist Caroline Hoxby has demonstrated that smaller and more numerous school districts are linked to higher student achievement.²³ Her study, which analyzed the effects of competition among school districts, found higher student performance in metropolitan areas with many school districts such as Boston, than in a single large school district, such as Miami. While Hoxby did not analyze the effects of district size per se, her results suggest that the consolidation of smaller districts into larger districts could weaken school performance by reducing competition among them.

There is a major problem, however, with small school districts. According to a substantial body of research, they tend to have comparatively high non-instructional costs:

- **California:** The ten smallest school districts in California had average spending on "other services" 578 percent higher than the state average for all districts.²⁴
- **Oregon:** A 2002 audit conducted by the Oregon Secretary of State's office found large discrepancies in average per student spending on support services depending on the size of the school district. School districts with 500 or fewer students spent 34 percent more per student on support services than medium districts with 3000-10,000 students (\$3,915 per student compared to only \$2,589 per student in the larger school districts)²⁵.
- **Maine:** All but one of the state's 25 highest-cost districts have fewer than 300 students, according to research conducted by Phillip Trostel of the Margaret Smith Center for Public Policy at the University of Maine.²⁶ Maine's per pupil costs are 10 percent higher than the national average, a difference Trostel attributes almost entirely to the disproportionate number of very small school districts in the state.
- **Iowa:** A January 2003 Iowa State University study found that Iowa school districts with fewer than 750 students spent larger proportions of their funds on administrative services.²⁷

Figure 3. Average Spending Per Student on Support Services, in Oregon, by District Size 2000-01 Student Year



Source: Oregon Secretary of State, December 13, 2002 (Issued May, 2004)

Decentralized Management, Local Control and Educational Performance

School principals need to maintain local control of school budgets to manage the unique needs of their school population and improve outcomes for students. Yet, schools also need scale to efficiently purchase outside services. UCLA management professor William Ouchi's work on decentralized schools offers insight into how a school can benefit from both local control of resources and scale simultaneously. Ouchi and a team of 12 researchers found—after studying a variety of public and Catholic school systems in North America—that decentralized school systems run more efficiently and produce better student achievement.

Ouchi included three types of large North American school systems in his research sample:

- Three very centralized public school districts: New York City, Los Angeles, and Chicago;
- Three very decentralized public school districts: Seattle, Houston, and Edmonton, Canada; and,
- Three very decentralized Catholic school districts: Chicago, New York City, and Los Angeles.

Ouchi's research team visited 223 schools, representing at least 5 percent of the schools in each system. For each school system, the team gathered data about student performance, school centralization, and the amount of money that reaches the classroom. The team focused on school budgets, accountability systems, and student achievement.

They found that how a school is managed matters. Schools perform better on fiscal and academic outcomes when there is a) local control of school budgets by principals and b) open enrollment, which allows per-pupil funding to follow the child.²⁸

Overall, the decentralized public school districts and Catholic schools had significantly less fraud, less centralized bureaucracy and staff, a greater percentage of money going to the classroom, and higher student achievement.

The research also found a lower achievement gap between white and minority students at decentralized public school districts. For example, at John Hay Elementary School in Seattle, the principal controlled approximately \$25,000 before the change to decentralization and now controls about \$2,000,000 per year, which is virtually the entire school budget. After the change, the principal, in consultation with her teachers, decided to throw out the standard schedule of six periods per day and instead adopted an innovative schedule that made more efficient use of teacher time. The principal also used her new freedom to hire twelve part-time reading and math coaches and set up a tutoring station outside of every classroom with another station in a wide hallway for "turbo-tutoring" the gifted children. Now reading in that school is taught in groups of five to seven students. Other classes are in larger sections and every student who is behind grade level receives one-on-one tutoring.

Over a four-year period following the change, the school's standardized math scores rose from the 36th percentile to the 62nd, while reading scores rose from the 72nd percentile to the 76th. In third grade, black and white students now have identical reading scores and all are at or above grade level.²⁹

Dr. Ouchi describes what happens in school districts that practice decentralized management and attach school funding to the backs of children (this novel funding approach is termed "weighted student funding formula"):

Each school in these districts controls most of its instructional decisions. Each school must attract its own students — no students are "assigned" to any school. However, certain important functions, such as administrative computing, auditing of schools, bus transportation, food preparation, payroll and pension, and new school construction, are carried out by the central office.³⁰

The bottom line: decentralized management allows schools to have local control while still taking advantage of scale and purchasing power for outside services from a central district office. This is important because schools can then take advantage of shared services that are managed at the district level and still maintain control over the majority of their budgets. This allows principals no direct resources into improving student outcomes at the school level.

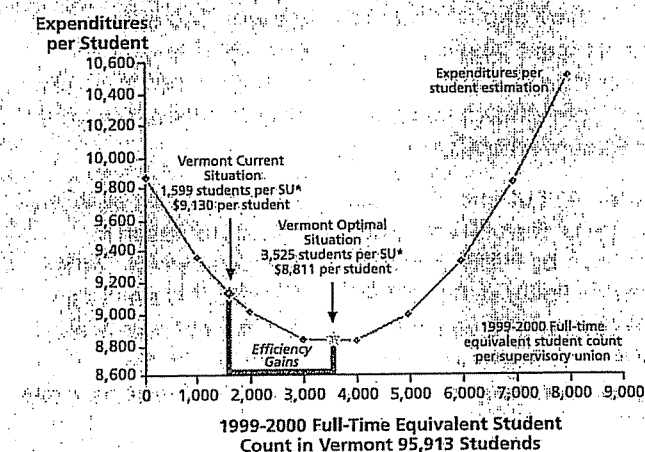
The Size Paradox

Thus, while being very small often improves educational outcomes, it can also result in higher per-pupil costs. Consolidating into very large districts, on the other hand, may create economies of scale for purchasing, but may also drive up administrative costs, increase bureaucracy and adversely impact student learning. An examination of school spending patterns across states and in other countries shows a strong correlation between district size and per-pupil costs. As a general rule, the very small and the very large school districts tend to spend the most per capita on non-instructional services. Mid-sized districts seem best able to find the "sweet spot"—delivering quality education while keeping costs under control.

Three Syracuse University policy researchers surveyed more than three decades of research on school size and school consolidation. Their finding: the optimal number of students in a district for total cost effectiveness was 6000. Costs begin to rise when districts grow larger than 6,000 students, and "sizeable" per-pupil funding discrepancies "may begin to emerge for districts above 15,000 students."³¹

This is supported by a Deloitte Research analysis of Vermont's school spending. Comparing educational costs to other Northeastern states, optimal school district size *strictly from a cost perspective* was 3,525 students per school district. When the results of that study are depicted graphically, a clear savings per pupil is achieved in mid-sized districts. (See Figure 4)

Figure 4. Potential Efficiency Gains in Education
Expenditures per Student and Number of Students per Supervisory Union

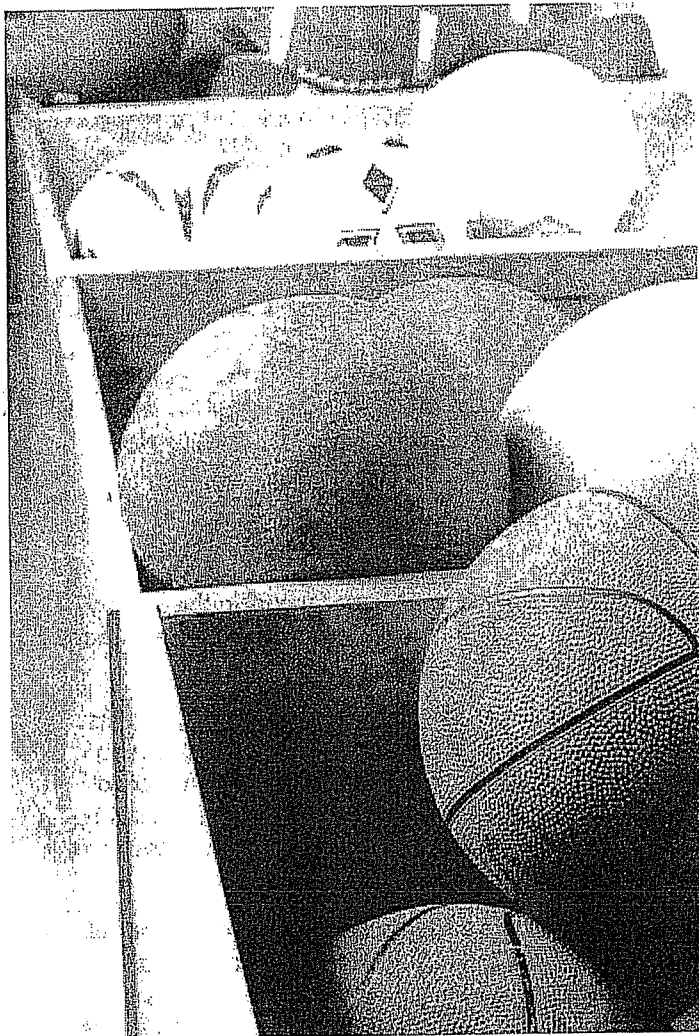


SU* = Supervisory Union
Source: Vermont Department of Education

In California, Reason Foundation's snapshot of school district size (Table 1) shows that small districts spend the most per capita on non-instructional costs, large districts spend above the state average even with their large economies of scale, and districts around 6,000 per pupil spend less than the state average.³²

Table 1. School District Size and Per Pupil Spending in California (2001)

Sample Category	Per-Pupil Spending on "Other Services" (state average \$644)	Percent of state average for all school districts
Ten smallest districts	\$3,724	578%
Ten largest districts	\$784	121%
Ten mid-sized districts (all with 6,000 students)	\$584	90%



Beyond Consolidation: The Shared Services Alternative

Recognizing that not every district or school in the country can or should become “mid-size” overnight, how can schools still control their non-instructional costs?

The way the consolidation debate is often framed, parents and school districts are left with the false choice of strong local control and high per-student costs by keeping school districts small or potentially lower per pupil costs but having to give up local control through school district consolidation. It need not be one or the other.

It's possible to educate students like a small district and still have the economies and buying power of a large district. How? By implementing shared services. Small districts can band together to share everything from purchasing materials to gymnasiums. These agreements can create the same effect as medium-sized districts, retaining the educational benefits of small schools while expanding purchasing power. Large districts can organize their individual schools into smaller units and clusters and still achieve economies of scale by sharing services *internally*. Districts of all sizes can participate in shared services to improve the quality of their staff and internal capacities.

Shared services is a technique both the private and public sectors have employed for decades. Since the late 90's, for example, large-scale shared services have become commonplace in the private sector, employed by companies like Ford, General Electric, Hewlett Packard, Pfizer and British Petroleum.

Shared services have also become commonplace in government. The U.S. Postal Service saves \$25 million a year by using shared services for accounting. Work that had been performed by 1100 employees at 85 unique district accounting offices has been consolidated and standardized, and is now being performed by 350 employees at three Accounting Service Centers (ASCs).³³

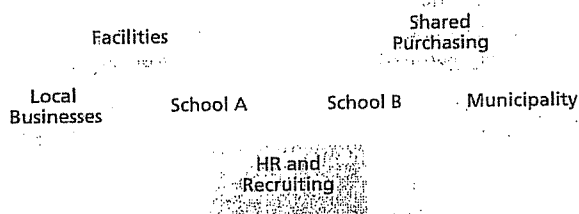
Local governments also have extensive experience with shared services. In New Jersey and Michigan, many municipal governments have engaged in shared services approaches.³⁴ A study of local government shared services in Wisconsin found many long-running case examples across range of services, from police and fire to wastewater treatment and economic development.³⁵

The most basic form of shared services in the public sector is mutual aid agreements that allow rural communities to share public safety assets across a region, avoiding costly duplication of equipment and specialized training. Another common example is found in water supply. Communities of widely varying sizes enter into joint-powers agreements to operate reservoirs, aqueducts, water treatment plants and distributions systems.

Similar situations exist in solid waste disposal when local governments join together to provide regional solid waste services in landfills or waste-to-energy plants. In Taylor County, Wisconsin, 15 towns and two villages combined with the county government to share recycling services. Under a joint agreement each municipality is responsible for its own solid waste contract with the county and must provide a collection site and attendants during operating hours. The county provides a recycling trailer at each site and administers the state grant, the budget and accounting.³⁶

Within education, service sharing is also becoming more commonplace. In 2002, the two largest school districts in Texas, Houston and Dallas, entered into a five-year partnership to increase their buying power for health insurance and reduce duplicative administration by pooling their assets to procure employee health benefits. Similarly, two small districts in Wisconsin joined together to share a superintendent, splitting her \$120,000 salary.³⁷

Figure 5. Shared Services Model

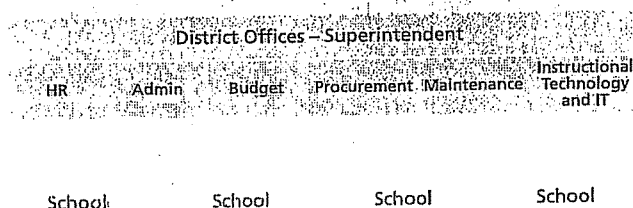


A shared services center is typically an independent unit created to provide services to client groups within an organization. The services offered are usually based on common needs or operations that are shared by two or more units. The overall aim of a shared service center is to optimize the available resources for the benefit of the participants. It can be as simple as a single administrator overseeing a shared busing system or as complex as an office housing multiple school districts' human resources, IT, purchasing staff and systems. (See Figure 5)

Shared services can be based on formal or informal agreements to share nearly anything. In Michigan, Northville Public Schools, Northville Township and the city of Northville have a long history of coordinated efforts. The Northville Parks and Recreation Department was started in 1980 with the signing of a joint services contract between the municipalities that created the joint recreation authority. The department oversees a substantial recreation program, a youth services organization, and a senior citizens program. The township and city have a formula for funding contributions, and the school district has provided facility assistance and commission members.³⁸

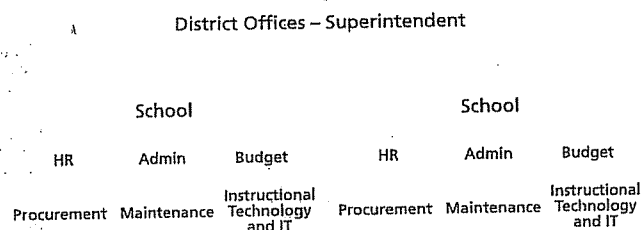
The idea of sharing services evolved from a number of traditional organizational structures. One common approach featured a centralized structure where administrative expertise was heavily relied on for smooth functioning. In the case of education, the administrative functions were typically concentrated at the headquarters of large school districts and sometimes inattentive central support agencies. (See Figure 6)

Figure 6. Traditional Centralized Model for Support Services

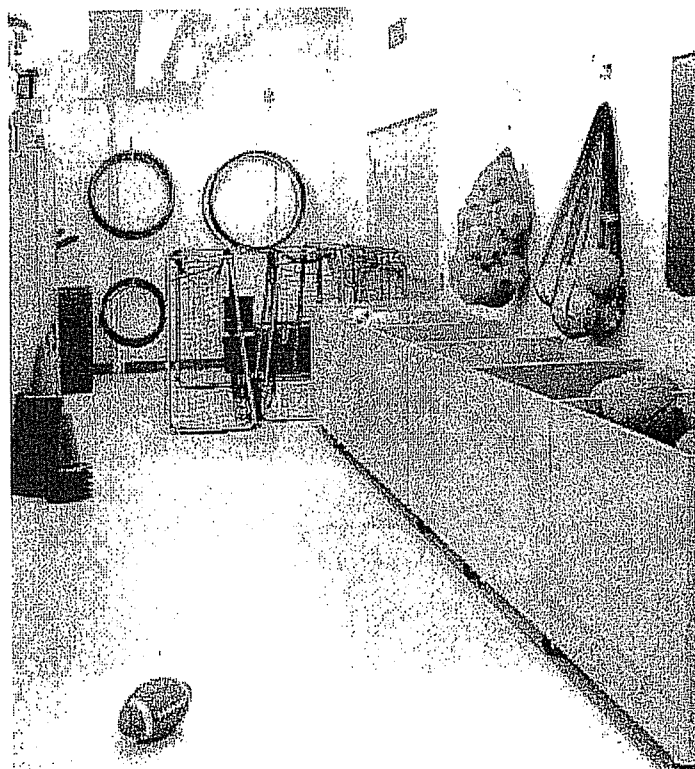


In an effort to improve responsiveness and make each unit responsible for its share of administrative dollars, the "independent business unit" approach later developed. Each school created its own set of administrative and support functions (See Figure 7). This structure was helpful to customize the competencies and resources to the specific requirements of the school and community. The principal was responsible for the core instructional operations as well as the administrative functions. This structure, however, led to massive duplication of activities with every school and district procuring its own infrastructure, administration and IT systems.

Figure 7. Independent Business Unit Model



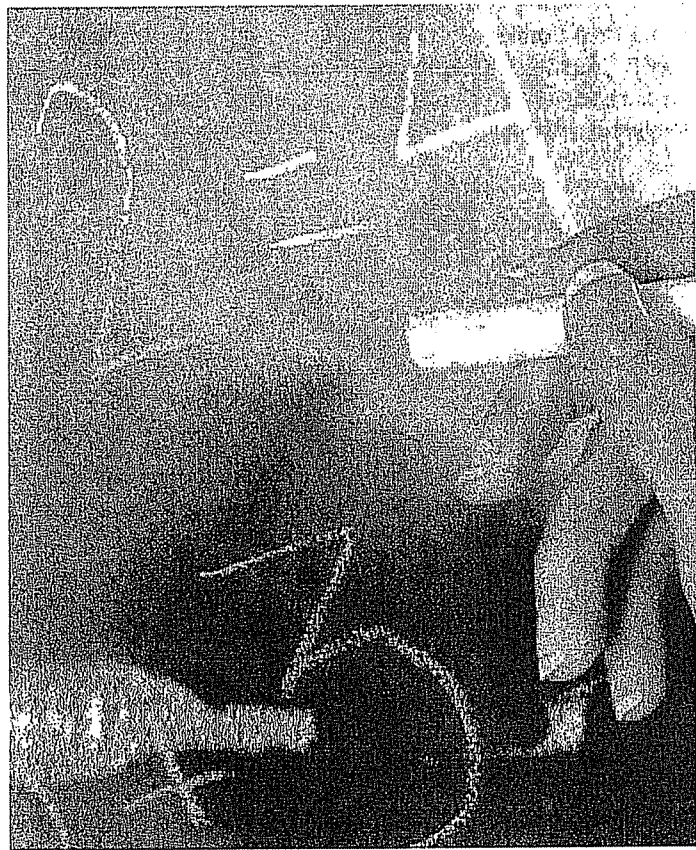
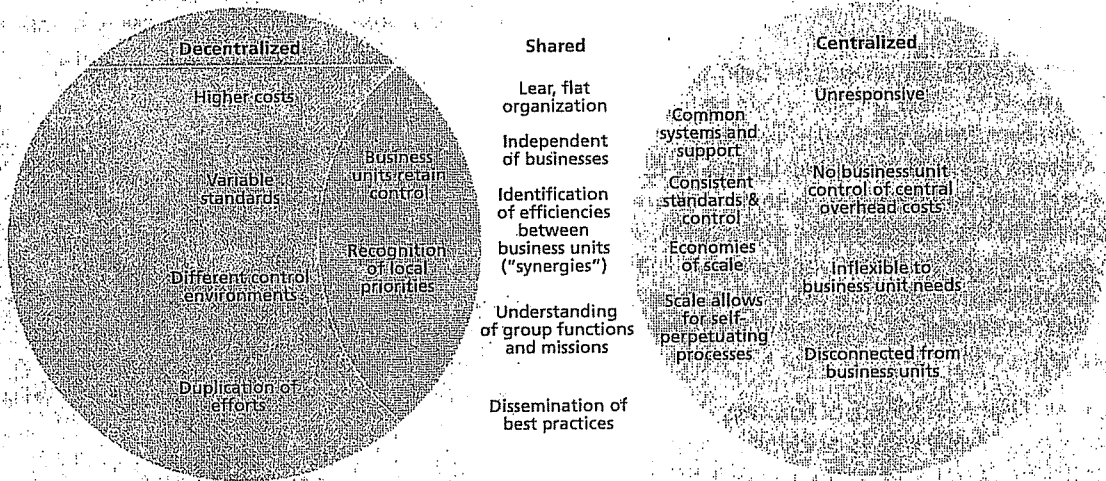
Both the centralized and more decentralized independent business unit support models provide a mix of benefits and drawbacks. Highly centralized administration can be disconnected from its customers. Dispersing support services provides "in-the-trenches" knowledge and personal service, but makes the use of consistent processes and management controls more difficult.



Shared services allows for the best of both worlds, creating lean, flat organizations that share processes and provide consistent service (see Figure 8). Sharing services creates the economies of scale, consistency of process, and results that come with centralized models. It also allows districts to maintain the benefits of decentralized control, allowing

individual administrators to retain oversight of curriculum, education, and other aspects of non-shared processes. By sharing processes that aren't mission-critical while still retaining local control of the most important aspects of education, shared services brings the best of big and small.

Figure 8. Shared Services: The Best Centralized and Decentralized

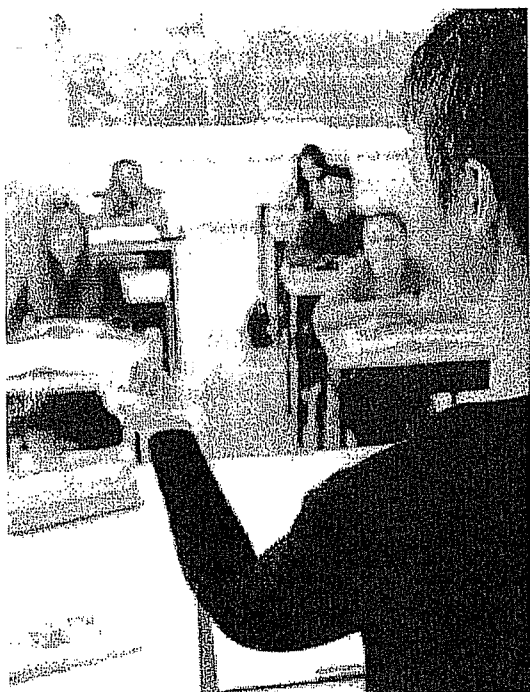


Opportunities for Sharing Services in Education

While it sounds complex, sharing services is actually a fairly simple concept. Organizations in both the public and private sectors have long recognized that they have activities, business processes, services and physical plant maintenance that can be shared effectively with others. These elements can be as simple as sharing a printer between two offices or as complicated as sharing a common payroll system across a global organization spanning multiple continents. Such sharing, with its shared responsibility and shared benefit, is fast becoming standard practice.

Shared services can yield very real operational efficiencies around facilities, transportation, food service, real estate management, procurement, human resources, information technology, security and even instruction.

Specific shared service opportunities for schools can be divided into two general areas: 1) Direct services to students and 2) Indirect services to staff or infrastructure.



Direct Services

Instructional. A number of creative approaches to applying shared services to instruction and content-related applications have been successful. In Northeastern Ontario, Canada, for instance, all three French-language school boards belong to *le Réseau de formation et de programmation du Nord-Est, Canada*, a regional consortium for teacher training. It has yielded sizeable savings in instructional costs per student and curriculum development costs for the districts.

In the Greater Lawrence area of Massachusetts, ten school districts have banded together to provide special education services. This sharing will save them approximately \$13 million over the next two decades.³⁹

Another example of sharing instructional services is in Minnesota, where two rural school districts joined together to provide instruction. One district instructs grades K-3 and 7-9 while the other teaches grades 4-6 and 10-12. Some teachers travel between schools and all activities are paired. Despite joint school board meetings, the school districts remain separate governmental units.⁴⁰

Table 2. School Functions Amenable to Shared Services

Capability	Eligible Shared Services	Savings Potential (Comparative)
Direct (Services to Students)		
Transportation	High	High
Food Service and Nutrition	High	High
Instructional	Medium	Medium
Safety and Security	High	High
Health Services	Medium	Medium
Indirect (Services to Staff or Infrastructure)		
Purchasing	High	High
Finance and Payroll	High	High
Facilities & Real Estate	High	High
Human Resources	High	High
Technology Services	Medium	Medium
Administration	Medium	Medium

Low —————> High

Transportation. Large districts have the flexibility to incorporate sharing in a number of creative ways. The simplest involve internally sharing resources, time, or space, such as when a handful of neighboring schools band together to host a recruiting fair. Even more interesting, though, are examples of well-planned formal shared services agreements. The two school boards in Ontario, Canada have joined together to share bus transportation services and audio-visual resources. By creating a single bus system, the two boards will save \$8 million in administrative, capital, and fuel costs over three years. The boards' shared AV library serves classrooms in both districts, saving \$300,000 annually.

Indirect Services

Purchasing. In New Jersey, the Shared Services Program is a cooperative effort among Middlesex County municipalities that supports the towns by providing a way to reduce daily operating expenses through cooperative purchasing. The program began in 1998 by offering towns aggregate natural gas purchasing, resulting in a 5 percent savings on electricity for public buildings during the first year of the program. Currently the municipalities share services for water/wastewater programs and the purchasing of natural gas, electricity, equipment, services, and supplies.⁴²

Administration. Seven districts in Connecticut have a shared services arrangement for administrative services that includes the superintendent, director of instruction, federal programs, special education directors, and a legal agent.⁴³ Meanwhile, in West Texas, Region 17 regional service center located in Lubbock, which serves an area encompassing about 19,000 square miles (close to the size of Pennsylvania), provides payroll and accounting services for a number of rural school districts, saving each over 50 percent a year and some up to 88 percent annually. The service center has also established an insurance co-op, which allows about 20 rural districts to purchase optional health services plans, such as dental insurance, at a much lower rate with better coverage than they could on their own.

Human resources presents another good opportunity for shared provision of administrative services. In 2004, the Massachusetts Human Resources Division (HRD) implemented shared services to streamline human services for all state agencies. The HRD allowed government agencies to reduce staffing and save the Commonwealth millions of dollars. In the HRD alone, staffing was reduced by 50 percent while handling more complex responsibilities and offering more innovative services to state agencies. For example, the state agencies devised a new shared recruitment process that reduced the time to fill a position from four months to five weeks.⁴⁴

Food Services Sharing in Pennsylvania

Cornwall-Lebanon School District and Northern Lebanon School District in Pennsylvania entered into an agreement to share the services of a food service director.⁴¹ After the first year of operation, the arrangement netted a combined profit of \$100,000, compared to a previous year combined loss of \$20,000. The financial success created a more stable working environment for all the food service employees, resulting in a lower employee turnover rate. The combined volume increased the districts' purchasing power, resulting in lower food costs.

The districts have benefited from the shared services by hiring an individual who possessed in-depth knowledge of nutrition, food preparation, marketing, fiscal management and interpersonal skills. Both districts have been able to combine efforts in areas such as purchasing, in-service programs, safety issues, collaboration of ideas for marketing products, and the substitute food service workers labor pool. The Supervisor of Food and Nutrition Services has been able to take advantage of combined purchasing by buying skids of food items rather than cases which equates to savings to both districts.

Combined in-service programs for both school districts have saved time and expenses. By combining the two districts, costs are basically reduced in half and a common day or days can be scheduled for training both districts. This allows for discussion and sharing of information between two districts and the in-service consultant. Because kitchens are subject to many safety and health issues, both districts can benefit from ideas that each district may have experienced and allow the supervisor to initiate common safety and health practices in all of the kitchens.

Another benefit of sharing a Supervisor of Food and Nutrition Services is the opportunity to increase the substitute food service employee pool. Because the supervisor is performing the interview process, an individual may apply at one of the districts and be considered for employment at both districts pending individual district policies and paperwork and the job candidate's availability to work for both districts.

Menu planning has been another area that the two districts share. Because the supervisor can coordinate purchases for both districts, daily menus can be planned based on the purchases for both districts. Collaboration on both Type A menus and ala carte items has helped to increase sales and improve quality of food items that are offered to students in both districts.

Potential Partners for Shared Services

- Other school districts
- Other schools (especially for large school districts)
- Universities and colleges
- Businesses
- Municipalities
- Nonprofits
- Community health and/or service centers

Technology. Districts have vast opportunities to share technology, ranging from shared systems and applications to shared helpdesk and onsite IT support. Districts across the country have found creative ways to develop payroll and HR systems with municipalities and neighboring schools, to share the cost of software licensing and purchasing applications, and even sharing CIOs with other districts. Sarasota County, NY and the local school district created a shared services partnership for information technology that cut personnel and software costs for the school district.⁴⁵

Facilities and Real Estate. A new frontier for educators is combining forces with the private sector. Examples of successful pairings abound, often where the schedule or needs of a school nicely balanced those of a local business or corporation. The Lincoln Unified School district in Stockton, California negotiated with a private fitness center operator to build a facility on site at a newly planned school. The district will provide the land and the fitness center operator will pay to build the facility. Once operational, private fitness center clients will use the facility in the morning before school and in the evening, while students will use it during the school day.



Shared Services and Charter Schools

The approximately 3,400 charter schools in the United States are also good candidates for shared service arrangements. Shared services can help charter schools uphold the integrity of their individual school missions while sharing the cost of administrative services and other general operating costs. In California, for example, the California Charter Schools Association (CCSA) has helped its members enter into shared service agreements to purchase goods and services. The California Charter Schools Association Joint Powers Authority was created to save charter schools significant costs in mandatory worker's compensation insurance and liability insurance—saving the typical charter school over \$20,000 per year on worker's compensation insurance alone.

Similarly, CCSA has created CharterBuy—a program that taps California charter schools' collective buying power and assembles a team of experts in purchasing to provide charter schools the best deals on supplies and equipment. The CharterBuy program has been saving charter schools as much as 50 percent of a school's expected costs on various goods and services.

Charter schools can also combine resources to share instructional services such as special education. For example, the Redding School of the Arts (RSA) charter school in Redding, California formed a Charter Schools Special Education Consortium open to charter schools in Shasta County. The consortium currently serves six charter schools. The schools pool their special education dollars into a central fund, and the consortium coordinates all special education services.

maybe a
best

Seven Benefits of Sharing Services

So while it can take many forms, and look different from application to application, shared services offer the best of both worlds—the benefits of common systems, support, and process, with the priorities of local control. Seven benefits to implementing this approach stand out:

Benefit #1: Save Money

For most school officials, the primary impetus for moving to shared services is the ability to reduce business costs in order to channel more money into the classroom or address budget shortfalls. Studies of shared service in private firms find that nearly 90 percent of shared services agreements lead to cost reductions, with the majority experiencing cost savings greater than 20 percent.⁴⁶ When Bristol-Myers Squibb created a global business services division for financial transaction processing, it was able to eliminate 85 worldwide invoice-processing locations, saving \$1.5 billion per year.⁴⁷ Similarly, the Dow Chemical Co. replaced 400 financial service centers around the world with four global centers in 1994, eliminating 70 percent of finance positions. The result: a 50 percent reduction in costs.⁴⁸

Public-sector shared services arrangements also produce significant cost savings, especially in the long run.⁴⁹ Through the New Jersey Regional Efficiency Aid Program (REAP), 31 Somerset County municipalities and school districts have saved nearly \$10 million over the past five years by sharing services with each other, according to the Somerset County Business Partnership.

The cost savings from shared services typically fall into these categories:

- **Lower capital costs.** School districts can reduce the capital costs of facilities and equipment by sharing with other districts and municipalities. For example, the Mount Olive School District in New Jersey reduced its transportation costs by establishing transportation partnerships with other districts to transport their special education students.

Mount Olive's transportation agreements bring in \$200,000 in revenue a year.⁵⁰ In South Lyon, Michigan, the city and school district built the first combined administration building in the state.⁵¹ The school district provided the land and the city financed the building. The building saved the school district from the costs of a bond issue and saved the city the expense and effort of purchasing land.

- **Diminished administrative and development costs.** The Midwestern Higher Education Commission (MHEC) worked with external vendors to create the Academic Scheduling and Management Software program. Colleges and secondary schools across the Midwest, including Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin share this software package. By sharing the administrative and development costs of SAMS, all parties involved are saving approximately \$750,000 per year.
- **Reduced redundancy.** Shared services also help organizations shave costs by reducing redundancy in activities, processes, employees and IT systems. School districts have been innovative in using shared services to reduce the high costs of special education. Since small districts may have very few students with a specific type of disability, school districts have often banded together to share staff and facilities that serve students with specific disabilities. For example, the Northern Valley Regional High School District in Bergen County, New Jersey shares special education services, staff training, and curriculum development with the seven elementary school districts whose students attend its two high schools. The district also operates a pre-school program for autistic children, which according to district officials, offers significant savings to the 22 participating districts.

- **Lower personnel costs.** Administrative and support functions consume nearly 50 percent of the budget in most school districts. Shared services allow school districts to capture the economies of scale in administrative and support staffing.⁵² Small districts can share specialized staff for such areas as legal services, maintenance, payroll, transportation and food services. In Illinois, Bloom Township operates back-office services for 13 local districts with 4-6 "support personnel" in a central office location. Similar sized school districts require 1-2 support personnel within each district. The center provides a full range of budget, payroll, audit, reporting, grant administration and similar services. Each of the districts pays a pro rata amount for these shared services. The smallest of the 13 districts pays approximately \$12,000 per year for all of these services, which likely equates to less than one-quarter of a full-time employee.

In Salem County, New Jersey, a single school business administrator with a staff of 10 provides business services to 14 districts in four adjoining counties, saving each district about half of what it would spend to employ a full-time business administrator with benefits.⁵³

- **Revenue from sales of surplus assets.** Shared services can reduce costs in other ways as well. For example, shared service agreements can create surplus assets and potential revenue from selling them.⁵⁴

Potential Magnitude of Cost Savings

California schools spend about 46 percent of their budgets on non-instructional services (including administration, operation and maintenance, transportation, and food service). This amounts to \$23 billion in state education dollars flowing to non-instructional services in the 2005-2006 California budget. Various studies and literature reviews have identified cost savings of anywhere from 20 to 40 percent from using shared services arrangements. If you assume even a very conservative 20 percent cost savings rate, shifting only one-quarter of the \$23 billion in California's non-instructional school costs to shared service arrangements could potentially save California school districts more than \$1 billion annually.

Using similarly conservative numbers, cost savings to public schools in the United States as a whole from shifting just a quarter of non-instructional services to shared services could potentially yield savings in the range of \$9 billion. To put this number in perspective, it is the equivalent to 900 new schools or more than 150,000 additional school teachers. In other words, it could have a significant impact on education funding.

These numbers, of course, are only rough estimates. Nevertheless, they demonstrate that the potential savings from moving to shared services approaches are great enough to warrant considerably more attention than they are currently receiving from most school districts.

Benefit #2: Gain Economies of Scale

Shared service agreements can enhance purchasing power and the ability to buy more products at a lower price. For example, in 2003 the Desert Sands and Coachella Valley unified school districts created the Coachella Valley Alliance, a purchasing cooperative aimed at buying in volume at a substantial discount.⁵⁵ In Southeast Texas, 14 small school districts pool their money for school violence and substance abuse programs, allowing them to get more and higher quality programs.⁵⁶

Benefit #3: Standardize Processes

The shared services model helps districts and schools standardize approaches to problems across the organization. When processes are consistent, performance is more likely to be predictable and improvements easier to implement. Moreover, when processes are transparent, staff and stakeholders have more realistic expectations. For example, when the Cornwall-Lebanon School District and Northern Lebanon School District in Lebanon, Pennsylvania shared food services, the partnership allowed them to standardize common safety and health practices in all of the schools' kitchens.

When Deloitte Consulting LLP reviewed the student transportation costs in the state of Illinois Board of Education, huge disparities in cost per student (\$319/yr vs. \$2006/yr) and cost per mile (\$2.61/mile vs. \$5.21/mile) were found among districts across the state.⁵⁷ Standardizing how schools approach key challenges can help all districts benefit from the practices of their most innovative peers.

Benefit #4: Attract More Highly Qualified Staff

The shared services model allows districts that are often unable to match the salaries of larger districts to pool resources and attract more highly qualified personnel. In 2002, David Freeman, the superintendent of the Placerville Union School District was approached by the superintendent of the one-school Camino Union School District, who asked if the two districts could work together to share a transportation director. Camino offered to pay Placerville Union approximately \$15,000 a year to administer Camino's bus service. "That offset our costs, and the benefit to them was they got a full-time quality (transportation) person," Freeman said.⁵⁸

Benefit #5: Retain Local Control and Achieve Scale

Shared services provides a mechanism to allow schools to maintain control over their instructional budgets, yet still benefit from cost savings for non-instructional services. Schools and school districts can take advantage of shared services that are organized across districts while still maintaining control over the majority of their budgets and direct resources into improving student outcomes at the school level.

Benefit #6: Flatten Out Peaks and Troughs

There are regular variations in needs for certain types of services, and also sometimes unexpected spikes and dips. Shared services help spread out such risk and variability. For example, fluctuating enrollment averages can sometimes lead to annual personnel shortages or surplus, especially for special education and similar services, but this is much less likely across several districts sharing such services. Shared services also tend to smooth out spending and thus make budgeting and planning easier.⁵⁹

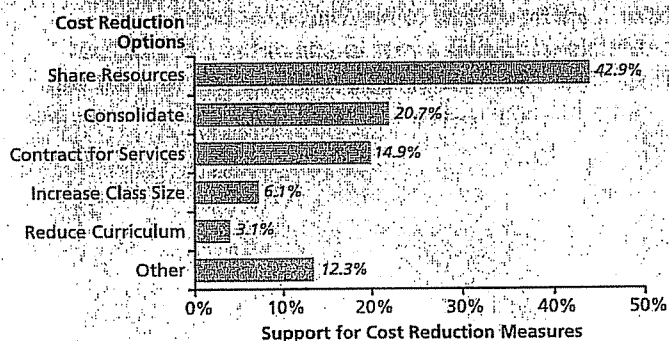
Benefit #7: Less Political Opposition

For taxpayers, sharing services is a much more popular cost-cutting option than political consolidation. A 2002 survey by Michigan State University found that about 43 percent of Michigan residents favored sharing resources as the best way to reduce school district costs and spending, two times more than those who favored consolidation.⁶⁰

These implications suggest that policymakers should first look for ways in which districts can share resources to reduce costs.

— Education Policy Center, Michigan State University

Figure 9. Michigan Survey of Tax Payer Support for Various School Cost Reduction Measures



Source: Education Policy Center at Michigan State University, February 2003.

Educational Services Commission of Morris County, New Jersey

A publicly managed cooperative program, the ESC is overseen by a board of directors consisting of a representative board of education member from each Morris County school district. This structure enables districts to share ideas for ways to share services and save money. The commission offers school districts opportunities to share bus routes, special education consultants and purchasing contracts for supplies. The commission also runs two schools for students with special education needs. All its services are aimed at allowing local districts to use centralized services to hold local costs down.

Created in 1970, the ESC employs 300 people and is run like a business. It operates solely on tuition and funding from local school districts and does not receive state aid. Its largest service is transportation, coordinating \$14.3 million in contracts for school bus routes for more than 50 school districts in the Morris County area. The commission has grown from a \$7.5 million operation in 1992 to \$25.5 million in 2003.

Morris County school districts largely take advantage of the ESC's offerings. Local public school business administrators say the ESC saves them time and money, especially when it comes to finding a bus route for one or two students attending a special education school.

In addition to the ESC's busing program, the commission's two schools and a cadre of special education consultants and specialists, such as physical therapists, are among the most popular services.

Small districts like Mount Arlington find the ESC is the antidote to local staffing difficulties, said business administrator Elizabeth George. The K-8 district with roughly 650 students can neither afford a transportation director nor full-time physical or speech therapists. Depending on who moves in and out of town, the need for such therapists can change from one year to the next, George said. Rather than hiring and firing people each year, the ESC can fill in with one of its professionals, she said.

One long-standing program that 17 districts are drawn to is the insurance pool which allows districts to pool their fees to pay claims for employees hurt on the job. The program includes coverage of medical expenses and lost salary, as well as mandatory safety training seminars. Although the fund had a few years where full premiums had to be paid, James From, Washington Township's business administrator, said districts often get a refund from the pool.

State Government's Role in Advancing Shared Services

Shared services can help address many of the management challenges faced by school districts. While superintendents and administrators at the local level must identify performance gaps, design the shared service systems and sell the change to the community, state legislators, governor's offices and state education officials can all also play a critical role. States that desire to reduce overall education costs by promoting the greater use of shared services in local school districts have several levers they can pull: 1) Budget pressure; 2) Financial incentives; and 3) Technical assistance.

Budget Pressure

As the funder of a large percentage of local school district spending, states can use their budget leverage to encourage or require school districts to share services. This is now difficult to do for a variety of reasons, one of which is the lack of visibility state officials have into school spending on support services.

The first step therefore is to make non-instructional school spending more transparent. One way to do this is to divide the education budget into instructional and non-instructional categories, forcing more detailed explanations of expenditures. The state of Idaho, for example, separates its education budget into five categories: instruction, support services, non-instructional services, facility acquisition services (e.g., additions, new facilities), and other services (e.g., debt servicing, contingency reserves).⁶¹ This type of partitioning would allow state legislators and state departments of education to dig deeper into the actual ways education dollars are being spent and reduce state contributions in areas shown to be inefficient.

Second, states can put school management practices under a microscope. In Florida, each school district must undergo a best financial management practices review every five years. The reviews are conducted by the state legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA) with the help of outside consultants. Meanwhile, the Texas School Performance Review, operated out of the State Legislative Budget Board, has conducted more than 75 audits of Texas school district business practices. The reviews have identified hundreds of millions of dollars in savings through better business practices. Typically nine of every ten suggestions made by the school performance review team are ultimately adopted by the school districts.

Once states have a better handle on non-instructional school district costs and practices, they can make a certain percentage of state appropriations (10 percent, for example) at risk based on the degree to which districts implement shared services and achieve greater efficiencies. Such an approach would complement efforts underway to make educational achievement at individual schools more transparent and funding based more closely on improvement.

Alternately, school districts can be required to devote a certain minimum percentage of their spending to the classroom. The Louisiana legislature passed a resolution in 2005 encouraging state officials to require local school districts to limit non-classroom spending to 35 percent of their budgets. Texas Gov. Rick Perry took this one step further and issued an executive order in August 2005 requiring Texas schools to do this. Districts that fail to boost classroom spending to 65 percent of total spending would eventually face sanctions according to the Texas Education Agency. Perry's proposal has encountered strong opposition from some local school officials who argue that the order infringes on local control.⁶²

Financial Incentives

Some states have laws and regulations that limit the ability of districts to share resources or to engage in partnerships with municipalities and the private-sector. Eliminating these types of barriers can greatly enhance the chance that shared services will be considered.

States can also make shared services a more attractive option to communities by providing incentives and inducements to school districts, including financial assistance for study and startup of shared services agreements. In 2004, the Wisconsin legislature budgeted \$45 million in incentive payment for local government entities that demonstrate cost savings in the first year of a shared services arrangement.⁶³ Likewise, in 1998, New York provided over \$700,000 in grants to help establish shared services between school districts and municipalities.⁶⁴ Such incentives can make the task of "selling" the idea of shared services to the community, local board, or parents much easier.

Several states have enacted legislation and set up financial incentives to encourage shared services:

New York State. Boards of Cooperative Educational Services, also known as BOCES, have been a cornerstone in the state's educational system since 1948 when BOCES were created by the state legislature.⁶⁵ There are 38 BOCES regions in the state of New York.

Each BOCES region is referred to as a supervisory district under the leadership of a district superintendent. The district superintendent serves as the representative of the commissioner of education and as the chief executive officer of the BOCES program. BOCES services are created when two or more school districts decide they have similar needs that can be met by a shared program or service.

BOCES helps school districts save money by providing opportunities to pool resources and share costs. Sharing is an economical way for districts to provide programs and services that they might not be able to afford otherwise. It is more efficient and less costly to operate one central service than it is to have separate programs in each school district. However, BOCES services are often customized, offering districts the flexibility to meet their individual needs. The decision to participate in BOCES services is based on the unique needs of each district. If the district doesn't need a BOCES service, it doesn't request it and does not have to pay for it. The state of New York provides aid for BOCES-provided

services. Each spring the local district's board of education selects BOCES services for the upcoming year. In the following year, a portion of the cost of BOCES services is returned to the district by the state. The amount returned is based on a formula that takes into account the district's financial resources and needs. Money returned to the district is used as unrestricted revenue.

BOCES is governed by a board of education just like local districts are governed. The BOCES Board of Education is composed of representatives from local (component) school districts who are responsible for curricular, financial and other policy decisions, just as boards are at the local level. Except for an administrative charge that is based on each school district's size, districts pay only for those BOCES services they use.

New Jersey. In 1999, the state of New Jersey developed an incentive-based system to encourage shared services. The state's REDI program (Regional Efficiency Development Incentive) provided funds to help local governments pay for feasibility studies and the start-up costs of shared services with neighboring school districts, towns or counties. Before it was cut, the REDI program awarded nearly \$2.2 million to school districts.⁶⁶

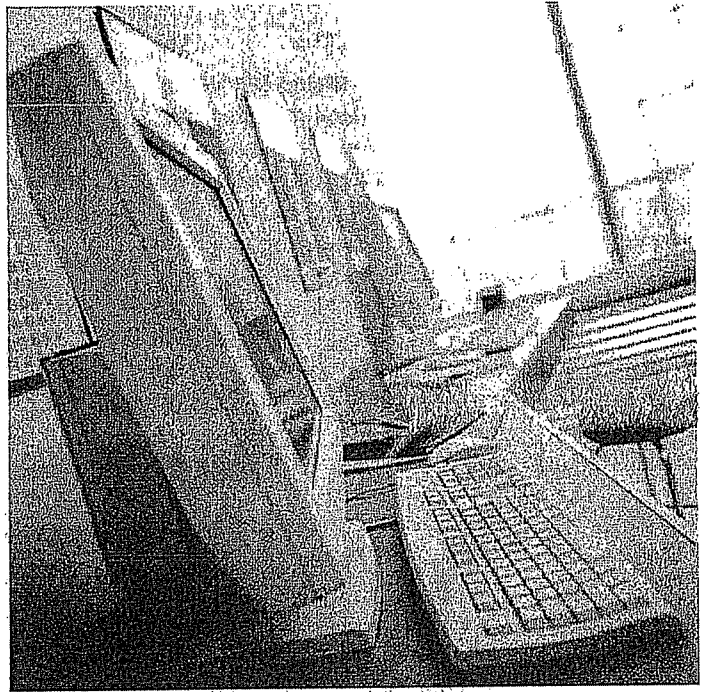
Another New Jersey incentive program, REAP (Regional Efficiency Aid Program), has provided tax credits directly to homeowners as a way to publicly reward school districts and municipalities for sharing services. In 2002, taxpayers in 249 communities received a reduction in their property tax bills.

California. The state of California created a shared service partnership agreement with the University of California library system.⁶⁷ Since 1998, the state has provided close to \$12 million in funding to encourage a shared digital library across all UC campuses. In addition, each individual UC campus contributes a portion of its discretionary funding to maintain the shared collection. If campus libraries were to independently negotiate for license and catalog and collect user statistics for the 8,000 titles and 250 databases in the system-wide digital library, the UC library system would have to spend an additional \$34 million per year.

Technical Assistance

Implementing shared services requires a number of sophisticated management and contracting competencies rarely available at local levels. Schools and smaller districts often have limited capacities in the realm of contract development, process improvement and management design, large-scale business proposals, contract management, and performance measurement. States typically have more well-developed networks of vendors who can provide support for designing and implementing shared services systems and processes; frequently deal with proposals from technology and consulting firms; and have more sophisticated performance measurement capabilities. They therefore are well positioned to provide some of these complex technical services, either directly or through training and education for staff. The state can also provide a repository of research, case studies and models that school districts can use in analyzing their own shared services prospects.⁶⁸

At the federal level, the U.S. Office of Personnel Management is managing and evaluating a large-scale human resources shared services project across twenty-two federal agencies.⁶⁹ Shared service centers will be key components of the federal government's human capital management structure. OPM will take pre-qualified candidate agencies and conduct a rigorous qualification and selection process with the assistance of employees from the agencies participating in the HR task force. At the end of the process, OPM's director will announce the first group of centers.



Structures for Shared Services

A variety of different models for shared services in education have emerged in the United States and throughout the world. Each model has certain strengths and may be the most appropriate solution to a school district's challenges, whether applied to small schools or large districts. In 1995 the New Jersey School Boards Association developed a definition of shared services in education as "Any voluntary formal or informal agreement between two or more entities that enhances educational opportunities for students and/or demonstrates cost effectiveness and accountability."⁷⁰ That leaves room for a lot of different opportunities to share, ranging from different legal structures of sharing to different shared functions, like transportation and safety.

Cooperatives

Specific-function cooperatives are the most common form of shared services. They are formed among multiple school districts to share functions and provide economies of scale. While not every cost center or responsibility of a district fits ideally with a shared services model, many functions and services are appropriate for shared services.

Example: In Texas, three transportation cooperatives provide bus services for multiple school districts. One of these, the Bowie County Transportation cooperative, provides bus services for 13 districts in Bowie County through inter-local agreements with each district. The cooperative is run by a board, comprised of superintendents for each of the districts, which establishes policy and operational procedures. The cost-per-mile achieved by the Bowie County cooperative is far lower than the state average for bus transportation.

Cooperative Superintendency

Commonly used in many states with small districts in sparsely settled regions, two or more local school boards enter into an inter-local agreement to retain a single superintendent who will serve both boards. Sharing superintendents can be thought of as the sharing of administrative capabilities. The agreement specifies the terms of employment and the sharing of expenses for maintaining a single office.

Example: In New Hampshire, the state has created School Administrative Units, each one directed by a superintendent of schools and one or more school boards.

Regional Educational Service Agencies

In this arrangement cooperatives governed by separate boards that collaborate with local member school districts to serve and support them. Membership in regional service centers is typically voluntary and fees for services rendered by the regional agency may be assessed in a variety of ways.

Example: In West Virginia, the state Board of Education established RESAs that provide services like computer basic skills support, cooperative purchasing, feasibility studies, instructional models, and legislative evaluation reports.

Educational Service Districts

This is a special purpose school district that consists of member local school districts within a specific geographic area. These public entities typically operate in a highly entrepreneurial fashion, deriving their funding from grants, cooperatives and other self-directed initiatives. "Membership" or participation is likely to be required of local districts. The educational service district board is appointed by the member districts and it operates a central office providing shared services to local districts.

Example: In Washington State, Education Service District 105 was created to provide cooperative and informational services to local districts.

Cooperative Educational Services (CES)

When two or more school districts decide they have similar needs that can be met by a shared program or service, they can create a CES. Each Cooperative Educational Service region is referred to as a supervisory district under the leadership of a District Superintendent who serves as the representative of the Commissioner of Education and as the Chief Executive Officer of the CES. The CES Board of Education is comprised of representatives from local (component) school districts and these board members are responsible for curricular, financial, and other policy decisions, just as boards are at the local level. Except for an administrative charge that is based on each school district's size, districts pay only for the CES services they use. State aid helps to offset some of the expenses, while others are directly funded by the state or federal government. CES entities have no taxing authority.

Cluster Districts

Cluster or union districts are initiated by local school boards and involve sharing services with neighboring school districts, with certain academic programs being made accessible to the students of different schools. The local boards may, for example, select a superintendent who spends some time in one district and some time in another. Students from one district may be sent temporarily to another school for specific activities. Clusters have been formed around science programs and materials, computers, staff development and in-service for administrators.

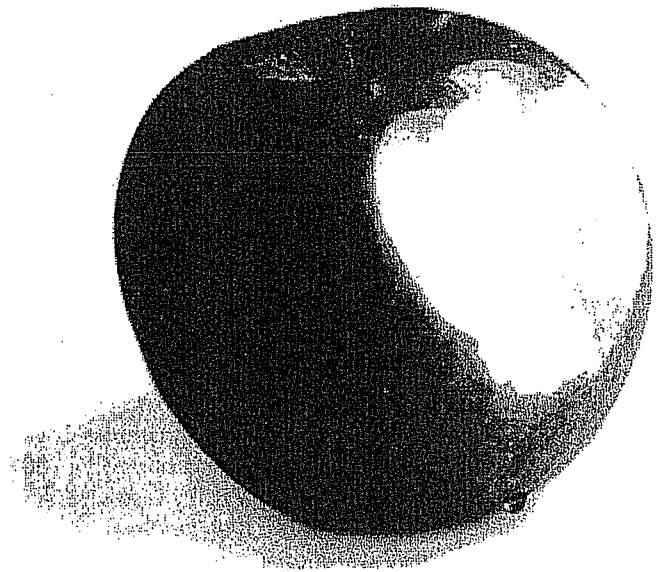
Example: Smithville Independent School District in Texas kicked off a staff development initiative, called Eastern Cluster Districts, whose purpose was to use shared instructional specialists to provide staff development in a location convenient to the districts on the eastern edge of Region 13 in Texas. The goal was to reduce travel time and costs and encourage greater participation in staff development by the participating districts.

Conclusion

In this era of tight budgets and loud calls for results and accountability, schools need to identify every means of saving money while improving capacities. Shared services provide one answer: a way to improve the ability to procure services, better use facilities and classrooms, and educate students without greater spending.

As school board officials, superintendents and state legislators consider shared services, they will soon discover that politics is by far their greatest challenge: good old fashioned turf protection, more than anything else, has caused schools to move more slowly to shared services than the private sector. The processes are obviously important. The technology has to work: The design has to fit local circumstances. Due attention must be paid to change management. But it is usually policy issues, or politics, that will make or break shared services.

While the politics of shared services is daunting, this cost reduction strategy can be presented as one of the least painful ways to pare educational costs. It doesn't pit education against administration or dollars against test scores or result in any loss of local control over schooling. It's a proven way to move more tax dollars into the classroom, an objective few educators would find unworthy of pursuing.



Endnotes

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- ⁷ The following examples are compiled from the ACCESS Website, a national initiative of the Campaign for Fiscal Equity, Inc. <<http://www.schoolfunding.info/index.php3>>. On January 25, 2005, federal District Court Judge Raner Collin ruled that the state of Arizona must provide additional funding for the state's English language learner (ELL) students and must do so during the current legislative session. Judge Collin granted plaintiffs' Motion for Injunctive Relief "to ensure that Plaintiffs receive the relief they were found to be entitled to more than five years ago..." "Texas' school finance litigation, West Orange Cove ISD v. Neeley, moved to the Supreme Court on July 7, 2005, where oral arguments debated the ruling by District Court Judge John Dietz in December 2004 that the Texas school finance system was unconstitutional. Since that ruling, which agreed with the plaintiffs that state funding for schools was constitutionally inadequate, and resulted in a de facto illegal state property tax, the state legislature has been struggling to devise a solution.

The Arkansas State Supreme Court has agreed to reexamine the Lake View v. Huckabee school funding adequacy case, in response to a motion filed by 47 Arkansas school districts arguing that the 2005-2006 budget recently approved by the legislature fails to adequately fund schools as required under the Lake View decision.

In Colorado, parents and districts from across the state filed suit in July 2005 in Denver District Court, alleging that, as a result of Colorado's tax and spending limitation statutes, the state is unconstitutionally under-funding the education system by close to one billion dollars annually.
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